Pollina Corporate Top 10 Pro-Business States

TOP 10 PRO-BUSINESS STATES

America must be an integral part of global business if it is to remain a superpower, but “thus far we have done a terrible job of integrating ourselves in the 21st century marketplace,” says geoeconomist and corporate relocation expert Dr. Ronald R. Pollina in the just-released Pollina Corporate Top 10 Pro-Business States for 2009: Rebuilding American’s Economic Power.

In the annual study of job retention and creation by the 50 states and the federal government, Dr. Pollina emphasizes “the effort to make America more business-friendly must come from all levels of government. Many states are doing such a poor job of creating a pro-business environment that they can’t even come close to competing with each other, much less compete globally.”

There are, however, states that serve as a model for the rest of the country. Brent Pollina, Vice President of Park Ridge, Illinois-based Pollina Corporate Real Estate and author of this year’s study, names Virginia as “America’s most pro-business state” followed closely by Utah, North Carolina (2008 winner), Wyoming and South Carolina. For the sixth consecutive year, California ranked dead last.

“In recent years, we have lost millions of the nation’s manufacturing, technology and high-wage service jobs, and this trend is escalating.” says Brent Pollina. “The federal budget deficit, trade deficits, low interest rates, family debt and inadequate educational systems are and will continue to have a negative impact on the U.S. economic, political and military strength in the 21st Century.

“We are deluding ourselves if we believe that we have not been impacted already, both socially and economically, and that our government, along with American ingenuity and tenacity, will correct for any losses. This report details how many state governments have the resources, but not the will, to keep Americans employed in high paying 21st century jobs.”

The study evaluates and ranks states based on 33 factors including taxes, human resources, right-to-work legislation, energy costs, infrastructure spending, workers compensation laws, economic incentive programs and state economic development efforts.

2009 Top 10 Pro Business Rankings

1	Virginia	**6**	South Dakota
2	Utah	**7**	Kansas
3	North Carolina	**8**	Georgia
4	Wyoming	**9**	Florida
5	South Carolina	**10**	Nebraska

Ron Pollina, Ph.D.
President and Geoeconomist

Much has changed in the nation since our 2008 Top 10 study was published last year. We are in a recession that will clearly be the worst downturn the nation has experienced since the Great Depression. While we have a new leader in the White House, Congress is proceeding as usual. Since our first edition of the Top 10 in 2004, I have been preaching the merits of strong economic development efforts throughout the nation. I have spoken to many legislative groups with the message that the time to build a strong economic development program is while the economy is strong. Unfortunately, much too often this has fallen upon deaf political ears. The result is that today many states and communities find themselves in desperate situations.

There has been a great imbalance in state economic programs, as we have illustrated by our Top 10 studies. Many states truly understood the impact globalization was having on their workforces and began to develop programs to not only attract new jobs but to also support existing employers. Far too many states have done nothing short of an awful job in this vital area, leaving the burden to be carried at the community level. The result is that we have created an employment environment in many states that is nothing short of hostile to employers. This, along with a very weak national program, has, over the last two decades, contributed significantly to the offshoring of millions of the nation's best jobs.

Global Power Shift

Globalization is a critical component of the 21st Century American economy. America must be an integral part of the global marketplace if it is to remain a superpower. Thus far, as a nation, we have done a terrible job of integrating ourselves into the 21st Century global market. Many American corporations have done a masterful job and have benefited, but the majority of Americans have not. The fact that many American corporations are successfully integrating into the global economy does not mean that America or the American public is benefiting.

The U.S. is in a global economic war, and we're losing. India and China have a collective will and strategy to win this economic war. There is plenty that we can do right now, if we could only forge a collective will as a nation, and force elected officials to provide the leadership that will address the problems we are confronted with today. Had we had the leadership we should have had in Washington, the poor state of the American economy could have been avoided. America has the resources to remain the number one ranked superpower of the 21st Century, but not the leadership. No president or individual member of Congress can accomplish this alone, or even as a group or political party. The problems are so daunting, that only a unified non-partisan approach stands any chance of reversing and correcting the direction in which we are traveling.

The visionary political leadership that allowed this country to become an economic superpower has been sorely lacking – a major factor in our current decline. There is a great deal of hope that President Obama will be able to unify the nation and get us back on track to rebuild our economic stature. With opposition from the Republicans and demands of powerful special interest groups whose objectives are often not in the best interest of the nation as a whole, the President's task will daunting.

India and China

There appears to be little doubt that the balance of power is shifting away from the U.S. to the East, as China and India's economies evolve. Contrary to what many people believed, China and India have not been devastated by the U.S. recession. Certainly their economies have been affected by it, but these countries are simply not as tied to the fortunes of the U.S. as many falsely assumed.

What is most important is that we recognize that these two countries are not complimentary economies, growing in unison with the U.S., but rather to a large extent at the expense of the U.S. economy. For Americans, this means a far different future, one in which our standard of living will be diminished and our military dominance challenged. A Goldman Sachs study estimated that by 2045, China will surpass the U.S. as the largest economy. The Economist Magazine stated that China's economy could surpass America's by 2030 in terms of GDP purchasing power parity. The fact is that, as a result of sixteen years of poor economic planning, America is headed for a less prominent position in the world order.

Several years ago, I was talking with the president of a large conglomerate that has manufacturing operations around the world. I asked him about productivity in his Chinese plants. He stated that when they opened their first plant in China 15 years ago, productivity left much to be desired. Training employees just off the farm was difficult – it was impossible to find good managers and all engineering and design work had to be done in the U.S. He said that today, globally speaking, their Chinese plants have their best workers and managers, and all engineering and design work is now done in China. He went on to conclude that the Chinese plants have become their most productive operations.

As BusinessWeek reported in 2005, "American Business isn't just shifting research work (offshore) because Indian and Chinese brains are young, cheap, and plentiful. In many cases, these engineers combine the skills-mastery of the latest software tools, a knack for complex mathematical algorithms and fluency of new multimedia technologies that often surpass those of their American counterparts." Many American executives now question America's future right to these high-tech jobs. Daniel Scheinman, Senior V.P. of Cisco Systems has said, "Companies come to India for the costs, they stay for the quality, and they invest for the innovation." Leon Husson, Executive V.P. of Phillips Semiconductors has said, "We will see China in a few years going from being a follower to a leader in defining consumer electronics trends."

There are simply no high-tech skills or professions that workers in other countries like China or India cannot learn just as fast and master just as well as U.S. workers. Given the declining state of education at all levels in the U.S., countries that have and are giving serious emphasis to education have a distinct advantage over the U.S.

Why Companies Move Offshore

Today, corporate America, especially the nation's largest corporations, are so dependent on the global marketplace that the demands of production costs and markets have taken precedence over concerns for keeping jobs in the U.S. If these companies are to survive, they must tie their future to the global market.

We have a tax structure that encourages companies to move offshore. Unlike most advanced nations, who have reduced corporate taxes to make themselves more able to compete with low-labor-cost countries, the U.S. has maintained a tax system with the second highest corporate taxes in the world. We regulate certain industries to the point that we drive them offshore, while we de-regulate others, allowing them to drive personal bankruptcies to record highs and the nation into recession. After 20 years of deregulation in the lending industry, homeowners are three and a half times more likely to lose their homes to foreclosure than a generation ago. Middle class incomes are not keeping pace with the rate of inflation, and this had been the case long before the beginning of the recession. The real threat of moving more manufacturing, research and development and high paying service jobs offshore has been used successfully to keep wages down in the U.S.

In addition to the pursuit of improved Return on Investment gained from outsourcing offshore, there are four other principal factors driving the offshoring trend. First, an increasing share of work can be digitized or conducted by telephone in places like Bangalore, India, making these locations functionally as close as the office next door. Second, wages in low-cost developing nations are on an average 20% to 30% of U.S. wages.

Third, many low-wage, low-cost nations, such as China and India, have developed the infrastructure, educational systems, skilled workforce and business climate to make themselves attractive to the U.S. and other countries' multinational corporations. Fourth, while other nations are making themselves more attractive places to do business, the U.S. federal government has behaved like many of America's state governments - either standing still and allowing others to pass them by or, in the worst case, making themselves less attractive places to operate a business.

I have seen large and small companies drop their planned expansion programs because of the months, and sometimes years, it may take to apply for and receive federal and/or state permits. I once had a state agency bureaucrat tell me that their agency had an excellent record relative to turning around permit applications. He said that his agency's policy was that, within 120 days, all applications had to be responded to. I asked him if my client submitted an application and met all the requirements, would my client's project be approved within four months. He said that was highly unlikely, because when they are busy and can not get to an application within the mandatory 120 days, they reject it, thereby meeting their mandate. If the applicant argues about the rejection, they are told to re-submit. With pride, he said re-submissions did not go to the bottom of the pile. I asked how long it would take to actually get approval, assuming my client's project met all his agency's requirements. With a straight face he said, "In about a year, but we do guarantee a maximum 120-day response on all applications." It's hard to beat a bureaucracy at its own game. Fortunately for my client, they were only considering this state as one of their choices. During negotiations, I was later assured by a high-ranking official that the chosen state would guarantee a maximum 60-day review, in writing, and the state's engineers would work with my client to assure that the permit would be approved. The issue for many companies is not whether they would qualify for an environmental or other permit if applied for, but rather the time and effort necessary to acquire the permit.

Unemployment

For many Americans, January 2009 will be remembered as the month that the recession really hit home. By the end of the month, layoffs at America's 500 largest publicly traded companies alone exceeded 140,000. This number does not include the thousands of employees in smaller public and private firms that also lost their jobs in January. During 2008, nearly 2.6 million people lost their jobs, resulting in a year-end unemployment rate of 7.2%. This represented the highest annual job loss since 1945, the year World War II ended.

To believe that these large companies will rehire Americans when the economy finally starts to rebound is wishful thinking at best. For many of these large companies, as well as many smaller companies, they have been focused offshore, not in the U.S. It is in the world's emerging economies that their market growth is occurring. This is where their greatest potential for profits will come from. It is also where they were hiring the greatest number of employees and offshoring American jobs well before the recession.

Offshoring of the nation's high-tech and manufacturing jobs is continuing and shows no signs of abating. It is this offshoring that is in large part responsible for the downward spiral of our economy and our standard of life. During previous recessions, we still had a strong manufacturing base and technology base that were instrumental in our economic recovery. These two critical elements have been severally weakened since the last recession. In spite of this, the federal government and many state governments continue to offer little or no assistance to business to promote job growth at home. Of the world's 40 largest multinationals, 55% of their workforces are located in foreign countries and 59% of their earnings come from abroad.

With over half of their employees located offshore and an increasing share of investment taking place offshore, the line between domestic and foreign companies is certainly blurring. The U.S. does little to stem this offshore tide by making the U.S. a better place to conduct business. Rather, our federal and state governments encourage it, as this and past Top 10 studies have shown.

In 1950, manufacturing accounted for 33.7% of all non-farm jobs; by 2006, this percentage had dropped to 9.4% and is projected to drop to 7.6% by 2016. Some attribute this loss to increased productivity. While increased productivity accounts for a small fraction of the losses, the majority of the losses can be attributed to offshoring of jobs. As a nation, we must stop thinking of manufacturing as a relic of the industrial revolution - an industry that pollutes, pays low wages and employs uneducated workers. Manufacturing has certainly brought many benefits to America. It impacts all aspects of an economy. It pays well, especially for the millions of Americans with a high school or less education, as well as those more educated. This industry employs a broad range of skills and has a huge multiplier effect on job growth in all other sectors of the economy. It is an essential element of any broad-based stable economy and is vital to the development of a balance of trade. How then, as a nation, can we allow this industry to continue to shrink away?

From 1996 – 2006, Professional and Business Service employment grew by approximately 4 million jobs and from 2006 – 2016 growth for these types of jobs is expected to be about identical. As a percentage of total employment, this category will have increased approximately

3%, growing from 10% to 13%. Considering this is the segment of the labor force that is to take us into the high technology 21st Century, a 20-year increase of only 3% of the total labor force is far from encouraging. This category accounts for professionals, scientific and technical services, as well as corporate management.

Where is job growth occurring? During the period 1996 to 2016, government employment is projected to grow by 3.8 million or over 19%, reaching an all-time high. Do we need a government growing more rapidly than other critical components of our workforce, especially considering the size of our national debt?

Solutions

The effort to make America more business-friendly must come from all levels of government. State and community governments cannot be expected to compete successfully for jobs in the world market without the federal government's assistance, which is in short supply. Many states are doing such a poor job of creating a pro-business environment that they can't even come close to competing with other states, much less compete globally.

The U.S. Congress, as well as state governments, must streamline the quagmire of regulations and paperwork imposed on business. They must encourage manufacturing growth by offering tax credits or other incentives to those companies willing to invest in technology and training, in order to allow low-skilled workers to produce products at reasonable costs. Federal assistance must address plant and equipment financing, job training and a general increase in employee productivity.

An even more complex problem to solve than the loss of manufacturing jobs is the loss of engineering, programming, accounting, financial services and other white collar jobs. These jobs, whether IT, accounting or financial services, are leaving for good. It is what economists call a structural, rather than cyclical, change. Even if the white-collar workers are reabsorbed, they are most likely going to be faced with lower wages, just as blue-collar workers have been. So far, there's no new industry being developed to absorb white-collar employees losing their jobs to global competition.

State and federal programs must be developed to make our workers more competitive globally and our business climate more attractive. The federal government should: 1) create incentives for human-capital investment, such as job-training programs; 2) shorten the depreciation period for IT and other high-tech equipment; 3) establish better R&D tax credits; 4) increase federal support for broadband rollout; and 5) provide more federal funding for realistic scientific research. Incentives, such as tax credits for companies that hire U.S.-based engineers and scientists and financial aid to college students who are pursuing engineering and science degrees and who remain in the U.S. after graduation, would help in this effort. Waivers or reductions of student loan payments for those who stay in the U.S. or the state in which they were educated would encourage students to go into critically needed fields.

For many of the industries that have gone offshore to take advantage of low-cost labor, technology exists or can be developed to allow those products to be produced in the U.S. at competitive costs. Without government support, however, it is simpler to move U.S.

manufacturing to low-cost labor in countries like China, Vietnam or India. Although the U.S. will not be able to cut labor costs enough to compete internationally in all industries, through the use of highly automated plants with a highly trained work force, both initially subsidized by government, the U.S. will be able to compete in many industries.

Federal assistance to depressed communities, to be passed on in the form of meaningful economic development assistance, is also vital. Much could be done to improve existing economic development programs. Too often state and local economic development incentive programs are weak, and some are simply fluff legislation with little or no value to business. The majority of states provide considerably less assistance to companies already in their state as compared with assistance promised to those considering moving into the state. In the past, this lack of assistance has driven many companies to jump from one state to another. Today, these companies are increasingly being driven offshore.

States – Too Little Too Late

Nothing less than a full blown recession and plunging unemployment rates were enough to motivate many states to begin to focus serious attention on economic development and resulting job security and growth. Even when they do take action, for many states it is limited. Some plans proposed early in the recession included: Colorado, expanding by $1.4 million an incentive fund for clean energy jobs; Minnesota, creating a tax-free zone for renewable energy in an effort to create "Green Jobs" and Missouri, subsidizing ethanol and biodiesel with $53 million.

Colorado may create a $5 million fund for banks to open credit lines for small businesses and cut taxes for employers who create 250 jobs or more. Missouri wants to expand funding for customized job training by 38% and also expand a corporate incentive fund by $20 million. Minnesota plans to cut business taxes by half over the next six years and exempt small businesses from capital gains taxes. The InvestNJ Business Grant Program is a new (December 2008) limited-term program. It offers incentives under two programs, Capital Investment and Job Creation or a combination of the two. Under the Capital Investment program, eligible businesses may receive up to a 7 percent grant on qualified capital investments, and under the Job Creation program, they may be awarded a $3,000 grant per each new full-time job created and maintained in New Jersey. Of these four states, Missouri had made serious efforts before the onset of the recession to stimulate job growth, while Colorado, Minnesota and New Jersey are late comers to making these efforts. Other states have developed, or are in the process of developing, new stimulus programs as a direct result of the recession.

The best method for attracting jobs would be for states to have across-the-board cuts in corporate taxes and elimination of unnecessary and costly regulations. Waiting for a recession to begin a serious effort to attract jobs is not the ideal time to start such a program. These programs are not cheap, if done correctly, but are an investment that will reap many benefits, both for its citizens' job security and the state's financial security. Unemployed citizens do not generate taxes. Companies that move offshore or to a state with a more pro-business environment do not create revenue for a state or community.

California's economy, the eighth-largest in the world, is at best stalled and at worst in a prolonged tailspin. In 2008, the Golden State was the scene of approximately 250,000 property

foreclosures, and also led the nation with nearly 450,000 initial unemployment claims--roughly the combined total of the next four worst states (Michigan, Ohio, Pennsylvania and Illinois). California's unemployment rate rose from 5.9% to 9.3% for the one year period starting January 2008. In 2008, Gov. Schwarzenegger and California's legislative leaders struggled with a budget deficit estimated at $42 billion through June 2010. By February 2009, 200,000 state workers took their first unpaid day off in response to California's fiscal crisis.
The state has shown little fiscal restraint over the past decade, with spending soaring 134%.

Ranking 50th in terms of credit rating isn't its only claim to such a rank. California also has the distinction of consistently ranking as one of the most difficult places to conduct business in, according to the Pollina Corporate Top 10 Pro-Business States report (see Figure 19). In 2009, the independent Tax Foundation ranked California as 45th for their Corporate Tax Index, 49th for their Individual Tax Index and 43rd for their Sales Tax Index. The state has, for many years, been generally considered to have made one of the nation's worst economic development efforts. Other states in the region view California as the easiest place to poach employers. California is an excellent example of a state with many assets that found itself with lowering tax revenues and rapidly rising unemployment. This can be attributed to uninspired leadership, high taxes, high development, permitting and tap on fees and a resulting weak business reputation.

The state's poor standing can not be attributed solely to the current governor or legislature, but also to past governors, legislatures. During good times, California has spent money on projects and public services with no regard to long term budgetary planning or efforts to build employment. During bad times, the state tends to increase taxes thereby driving more employers to seek more business friendly environments. California's 10.55% income tax and 9% sales tax are pushing businesses and taxpayers across the boarder into adjacent states. This causes increased unemployment and lower tax revenues. In May 2009 California's voters sent a clear message to their political leadership by rejecting by nearly two-to one a proposed $16 billion in higher taxes, spending gimmicks and increased borrowing. This vote came in spite of the governors' threats that services would be cut drastically and state prisons would be forced to release prisoners early. The vote was a clear statement that the voters understood the problem and knew the solution in spite of what their political leaders said. The Wall Street Journal was on the mark relative to the vote when they stated: "We hope the sound was heard as far away as another out-of-control government, the one in Washington D.C."

There are some bright economic development lights in California at the community or regional level, such as the City of Victorville Economic Development Department and the Central California Economic Development Corporation. These local economic development efforts have been carried on for decades and have had many successes in spite of an historic lack of state support. It wasn't until November 2005 that Governor Schwarzenegger established the California Economic Development Partnership, an interagency team to coordinate all state economic development efforts. As the Chinese proverb states: "The superior doctor prevents sickness; the mediocre doctor attends to impending sickness; the inferior doctor treats actual sickness."

Much of the above is excerpted from Selling Out A Superpower: Myths and Mismanagement Undermining the U.S. Economy, Dr. Ronald R. Pollina's new book to be published in the winter of 2009 - 2010.